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Applicants: Gastineau *et al.*
Appl. No. 09/536,258

Remarks

Reconsideration of this Application is respectfully requested.

Upon entry of the foregoing amendment, claims 1-20 are pending in the application, with 1, 8, 15, and 20 being the independent claims. Claims 1-20 are sought to be amended solely for the purpose of clarifying the claim language. No narrowing amendment has been made. The amendments are supported by the claims as originally filed, and the specification at pages 14-17. These changes are believed to introduce no new matter, and their entry is respectfully requested.

Based on the above amendment and the following Remarks, Applicants respectfully request that the Examiner reconsider all outstanding objections and rejections and that they be withdrawn.

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Rejections Under 35 U.S.C. § 101

The Examiner rejected claims 1-4, 6, 7, and 20 under 35 U.S.C. § 101 for allegedly failing to "recite technology, i.e. computer implementation or any other technology." (Paper No. 5). The Applicants disagree that the rejected claims fail to recite statutory subject matter without explicit reference to a computer. Nevertheless, in order to expedite prosecution of this application, claims 1 and 20 have been amended to recite that "at least part of the method is performed on a computer," thus accommodating the Examiner's requirement that the claim recite "computer implementation." The Applicants submit that this rejection should be withdrawn.

Rejections Under 35 U.S.C. § 103

The Examiner made several rejections under 35 U.S.C. § 103. For the following reasons, the Applicants disagree that the claimed subject matter would have been obvious from the cited references, and thus request reconsideration of the rejections, and that they be withdrawn.

1. *Kiron (5,806,048) and Pilipovic (6,456,982)*

The Examiner rejected claims 1-4, 6-7, 8-11, and 13-14 under 35 U.S.C. § 103(a) as allegedly having been obvious from the combination of Kiron and Pilipovic. The Applicants request reconsideration.

The Examiner wrote that Kiron discloses "a method of hedging investment risk in actively managed exchange traded funds (col. 1, lines 40-55 and col. 2, lines 1-20, col. 3, lines 1-10)." (Paper No. 5 at page 4). The Applicants disagree that Kiron can be read to teach any method of hedging investment risk in actively managed exchange traded funds (AMETFs). The Applicants find no reference to any method of hedging against a position taken in an AMETF in the portions of Kiron cited in the rejection. Applicants do note that column 3, lines 19-22 of Kiron refers to hedging options positions, "The invention will act as a hedge for market makers who wish to lay off their risk of making markets in options on the underlying security." This is not the same as hedging a position taken in an AMETF.

However, Kiron simply describes creating a new closed-end investment company that invests entirely in shares of an open-end investment company fund ("the underlying security"). See Kiron at col. 2, line 66 – col. 3, line 3. Even if Kiron might be read to teach a method that, theoretically, could be used in intra-day trading of actively managed funds, Kiron provides no way to estimate an intra-day value of the shares, and thus provides no assurance for investors that

negotiated prices on secondary markets are fair measures of the value of the shares. This is very different from the solution of the present invention, which does not need to create another type of investment company, but rather uses factor information about the sensitivity of the fund to various factors in order to create a hedging portfolio, which generally contains a different set of securities than the fund itself. Furthermore, the hedging portfolio can provide a measure of the intra-day value of the fund on which investors may base negotiated prices. In Kiron, the hedging security is simply an investment company that invests in the fund itself, whereas the hedging portfolio of the present invention generally contains a different set of securities than the fund itself.

The Examiner recognized the deficiencies of Kiron when she wrote that Kiron does not disclose "extracting factor information from the portfolio of the actively managed exchange traded fund; determining factors that affect the value of the exchange traded fund; and determined factors to produce a hedging portfolio that tracks the price of the exchange traded fund." (Paper No. 5, page 4). But the Examiner alleged that Pilipovic can supplement the Kiron deficiencies. The Applicants respectfully disagree.

The Examiner alleged that it would have been obvious "to modify the invention of Kiron *et al.* based on the teachings of Pilipovic. The motivation to combine these references is Pilipovic's econometric model extracts relevant econometric parameters that influence the price of the hedging strategy." (Paper No. 5, page 4). This is not a motivation to combine the references, but rather a mere paraphrase of Pilipovic's teachings. The rejection provides absolutely no indication about what in Pilipovic's econometric model would have motivated the skilled artisan to use that model in any actively managed fund trading scheme. There would have been no motivation to modify Kiron based on the teachings of Pilipovic because in order to use

the methods of Pilipovic to attempt to predict the future behavior of a fund, the identities of the assets underlying the fund would have to be known. Yet Kiron states that one of the difficulties with trading open-end funds was that "the investment banking house did not know exactly which securities the open end funds held." (Kiron, col. 1, lines 65-67). Kiron's teachings do not involve any disclosure of the securities in the open end funds. Thus Kiron itself can be read to teach away from any combination with Pilipovic, because any application of Pilipovic's method would require data regarding the underlying securities. *See Pilipovic* at col. 8, line 27 ("the input data includes the most recent liquid market data.").

It is clear that there would have been no motivation to combine Pilipovic with Kiron. But even if those references could properly be combined, the combination still would not suggest the presently claimed invention. Pilipovic does not teach using factor analysis to select a hedging portfolio that has the same sensitivity to a set of factors as the fund. Instead, Pilipovic is concerned primarily with predicting the future behaviors of securities based on their past performance. The present invention makes no attempt to predict the future behavior of the fund, but rather builds a model of the fund that will behave in the same manner as the fund in the future, without any prior prediction of what that behavior will be.

Neither Pilipovic nor Kiron, individually or in combination, teaches or suggests the presently claimed invention. The Applicants thus request reconsideration of this rejection, and that it be withdrawn.

a. Claims 3 and 10

Regarding claims 3 and 10, the Examiner wrote that Kiron discloses "producing a portfolio from the portfolio of financial instruments in the exchange traded fund" but that Kiron

does not disclose "to hedge a position taken." (Paper No. 5, page 5). The Examiner alleged that Pilipovic supplements that deficiency of Kiron. The Applicants respectfully note that Kiron only discusses using a closed end fund of funds to hedge options, and that neither Pilipovic nor Kiron, nor the combination, discloses or suggests constructing a hedging portfolio using the presently claimed invention. Claims 3 and 10, as amended, recite "using the hedging portfolio to hedge a position taken in the exchange traded fund." The hedging portfolio used in claims 3 and 10 is created by measuring the sensitivity of an exchange traded fund to factors, and constructing a hedging portfolio with the same sensitivity to the same factors. Neither Pilipovic nor Kiron (nor the combination) discloses or suggests constructing a hedging portfolio in this manner.

b. Claims 4 and 11

Regarding claims 4 and 11, the Examiner wrote that while Kiron does not disclose applying factor analysis to provide factor information on an exchange traded fund, Pilipovic discloses "factor analysis used to establish pricing." (Paper No. 5, page 5). The Examiner alleged that "The motivation to combine these references is Pilipovic's factor analysis defines driving factors that define the price used to make buy, sell and hold." (Paper No. 5, page 5). The Applicants respectfully submit that this is not a reason to combine the references, and in fact, teaches away from combining the references. As the Examiner herself pointed out, the primary focus of Pilipovic is to provide information for investors to base decisions on whether to "buy, sell [or] hold." This is a completely different reason for applying factor analysis than in the present invention, which uses factor analysis to create a hedging portfolio with the same exposure to the same factors as an exchange traded fund. Thus Pilipovic cannot be read to suggest the combination. Furthermore, as already argued above, even if the combination of

Kiron and Pilipovic were proper, still that combination would not suggest the presently claimed invention.

c. Claims 6 and 13

Regarding claims 6 and 13, the Examiner wrote that while Kiron does not disclose a factor analysis with factors including economic activity, inflation rates, or other factors related to economic activity, Pilipovic allegedly supplements this deficiency of Kiron. The Examiner wrote that "The motivation to combine these references is the factors that are a part of Pilipovic's multifactor model present economic activity influenced by inflation rates. Pricing is influenced by inflation rates." (Paper No. 5, page 6). This is not a motivation to combine Pilipovic with Kiron, but rather a general observation that Pilipovic's system includes inflation rates, and that pricing is influenced by inflation rates. The Examiner does not explain how the observation that Pilipovic's system includes inflation rates and that pricing is influenced by inflation rates would motivate the ordinary artisan to combine Kiron and Pilipovic. The Applicants submit that it would not. Furthermore, as argued above, even if Kiron and Pilipovic could be properly combined, still that combination would not suggest the presently claimed invention.

d. Claims 7 and 14

Regarding claims 7 and 14, the Examiner wrote that Kiron discloses "constructing a factor portfolio based upon weightings and selections of securities from a given group of securities (col. 3, lines 1-10, 45-63, col. 4, lines 5-10, col. 6, lines 1-10)." (Paper No. 5, page 6). The Applicants respectfully submit that the Examiner's position in rejecting claims 7 and 14 is in conflict with her earlier (correct) finding that Kiron does not teach or suggest any sort of factor analysis. See Paper No. 5 at page 4. In fact, none of the Examiner's citations to Kiron makes

any mention whatever of constructing a hedging portfolio based on the measured factors of an exchange traded fund. Furthermore, Kiron does not "select securities from a given group of securities." Instead, Kiron simply "securitizes" an open-end fund by creating a closed-end company that invests entirely in the open-end fund. This is not the same as selecting securities from a group of securities using a factor analysis to create a hedging portfolio.

2. *Kiron (5,806,048) and Pilipovic (6,456,982) in view of Meyers (5,937,159)*

a. *Claims 5 and 12*

The Examiner rejected claims 5 and 12 under 35 U.S.C. § 103(a) over Kiron, Pilipovic, and Meyers. The Applicants refer to the arguments in the previous section to show why the combination of Kiron and Pilipovic is improper, and how, even if the combination were proper, the combination still fails to disclose or suggest the presently claimed invention. Meyers in no way supplements the deficiencies in Kiron and Pilipovic. While Meyers may discuss a trusted computer system as recited in the rejected claims, there is simply no motivation to combine Meyers with Kiron or Pilipovic. The Examiner wrote that "The motivation to combine these references is both Kiron et al. and Pilipovic easily fit onto trusted secure computer systems which are widely used for financial applications." (Paper No. 5, page 6). This is not a motivation to combine these references. Neither Kiron nor Pilipovic make any mention that their methods should be performed on trusted systems. Just because (as the Examiner alleges) the methods of Kiron and Pilipovic *can* operate on trusted systems does not mean that those skilled in the art would do so without any indication by Kiron or Pilipovic that they *should* operate on trusted systems. In fact, there is nothing in either of those references that indicates any need or desirability of doing so. The combination of Kiron, Pilipovic, and Meyers is thus improper.

b. Claims 15-19

The Examiner rejected claims 15-19 as allegedly having been obvious from the combination of Kiron, Pilipovic, and Meyers. Claims 15-19 are system claims directed to systems for performing the methods of the claims that have already been discussed above. For the same reasons as already discussed, the combination of Kiron and Pilipovic is improper and fails to teach or suggest the claimed invention. Furthermore, combining Meyers with Kiron and Pilipovic is improper, and even that combination fails to teach or suggest the claimed invention.

3. Claim 20: Kiron in view of Pilipovic

The Examiner rejected claim 20 as allegedly having been obvious from the combination of Kiron and Pilipovic. The Examiner wrote that Kiron discloses "a method of calculating a Net Asset Valuation proxy (col. 2, line 55 – col. 3, line 14, new linked derivative security functions as proxy)." (Paper No. 5, page 8). The Applicants respectfully disagree with the Examiner's reading of Kiron. Kiron does not disclose any method of calculating anything like a valuation proxy. Nothing in the portion of Kiron cited by the Examiner suggests otherwise. The only portion of Kiron cited by the Examiner that bears any relation at all to valuation is the part that reads "Any open end fund, when securitized, can be listed on a stock exchange and traded at any second, minute or hour, regardless of the open end N.A.V." (Kiron, col. 3, lines 11-14). What is notably missing here is *any indication whatsoever* of any calculation of a value proxy for the fund. In fact, Kiron can only be read to teach *away* from the present invention, because what Kiron teaches here is that *no* valuation is needed to trade the securitized funds ("...regardless of the open end N.A.V."). The presently claimed invention is thus actually *opposite* in this regard to the teachings of Kiron, because while the presently claimed invention provides a method for

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calculating a valuation proxy, Kiron discusses a method where no valuation of the fund is calculated at all.

Furthermore, as with all of the other claims, the combination of Kiron and Pilipovic is improper because there would have been no motivation to combine them. And even if they were properly combined, the combination would still fail to teach or suggest the presently claimed invention.

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Conclusion

All of the stated grounds of objection and rejection have been properly traversed, accommodated, or rendered moot. Applicants therefore respectfully request that the Examiner reconsider all presently outstanding objections and rejections and that they be withdrawn. Applicants believe that a full and complete response has been made to the outstanding Office Action and, as such, the present application is in condition for allowance. If the Examiner believes, for any reason, that personal communication will expedite prosecution of this application, the Examiner is invited to telephone Michael Stimson at (202) 383-6906.

Prompt and favorable consideration of this Amendment is respectfully requested.

Respectfully submitted,



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